City of Alexandria, Virginia

MEMORANDUM

DATE: DECEMBER 2, 2019

TO: THE ALEXANDRIA HOUSING AFFORDABILITY ADVISORY COMMITTEE

FROM: HELEN S. MCILVAINE, DIRECTOR, OFFICE OF HOUSING

SUBJECT: CONSIDERATION OF A REQUEST FROM THE ALEXANDRIA HOUSING DEVELOPMENT CORPORATION (AHDC) FOR A CITY LOAN OF $8 MILLION TO ACQUIRE THE AVANA ALEXANDRIA APARTMENT BUILDING AND PRESERVE IT AS AFFORDABLE AND WORKFORCE HOUSING

ISSUE: Consideration of a City loan of $8 million to the Alexandria Housing Development Corporation (AHDC) to acquire the Avana Alexandria Apartments to preserve it as affordable and workforce rental housing (Attachment 1).

RECOMMENDATION: That AHAAC recommend City Council approve a loan of $8 million to AHDC to acquire and preserve the Avana Alexandria Apartments as committed affordable and workforce rental housing.

BACKGROUND: In mid-October, AHDC was contacted by representatives of JBG-SMITH (JBGS) regarding a potential multifamily acquisition opportunity listed for sale in the City. The Avana Alexandria Apartments, located at 3001 Park Center Drive, has 326 apartments, including a mix of one (137) and two (187) bedroom units, as well as one three-bedroom unit and one four-bedroom unit There are many onsite amenities, including a tot lot and playground, business center, swimming pool, community room and a fitness room. The property is in very good condition, with more than one-third of the units fully renovated very recently, and other units receiving updates at turnover. The complex is located on approximately six acres with half of the site currently developed as surface parking. The property is privately-owned with unrestricted rents: most rents fall within a range characterized as "workforce" level by the City, i.e., affordable to households at 70-80% AMI, with some above that.

For more than a year AHDC and JBGS have collaborated to potentially acquire and preserve existing affordable and workforce multifamily properties in in Alexandria. None of the prior opportunities have materialized within parameters set by the entities, however AHDC and JBGS have developed a productive working relationship to efficiently assess transactions and marshal resources and potential partners based on their capabilities and relationships.

DISCUSSION: The proposal developed by AHDC will create a component of affordable housing within this workforce level asset within the first year of AHDC's ownership based on anticipated turnover and attrition (annually trending at 35%). No displacement will occur. Going forward, AHDC plans that 40% of the apartments (130 units) be maintained as committed affordable units with rents at 60% AMI for income eligible households, and 35% (114 units) remain committed workforce, with rents affordable to households with incomes up to 80% AMI. (Attachment 2). The balance of units will have rents at market rate. While rents would be initially adjusted to create the 60% affordable units at unit turnover, further rent adjustments would be made over a 5-year period to incorporate tenant paid utilities into the affordable rent structure. Based on the model, cash flow generated by the workforce and market rate units will cross-subsidize affordable rents and utilities being implemented in the short term until the property is refinanced, potentially using low income housing tax credits, around Year 10.

Due diligence is underway, but through inspections of the property so far, it has been determined that no substantial renovation is needed for 10 years. Updates and necessary repairs will continue at unit turnover. The property will be operated as a mixed-income community, with all residents having full access to amenities.

AHDC proposes to acquire the property using a financing package that includes a VHDA first trust loan with REACH blended funds and grant monies. JBGS will provide mezzanine financing from its Social Impact Fund. The City's Real Estate Assessor confirms that the sales price is consistent with recent comparable transactions in the same submarket. In addition to repayment of the mezzanine loan in Year 10 (when it exits the deal), JBGS will provide property management services during the loan period. It is anticipated that AHDC will refinance the property at that time and may redevelop some of the site's existing surface parking to create additional housing.

FISCAL IMPACT: The City has approximately $4.5 million remaining in its various FY 2020 housing fund accounts. It is proposed that the $3.5 M gap be closed with a bridge loan from monies reserved for future Capital Improvement Projects, with the bridge loan repaid from Housing's FY 2021 meals tax monies. Contingent on the refinancing strategy developed for Year 10, it is anticipated that the City gap loan will remain as part of the long-term funding for Avana Alexandria's component of affordable housing. The City loan is proposed as a residual receipts loan that is reviewed annually for opportunities to be repaid from property cash flow, with full repayment due in no more than 40 years.

ATTACHMENTS:

(1) AHDC Request for Funding (dated December 2, 2019)
(2) HUD 2019 Area Median Income and Rent Levels

STAFF:

Helen McIlvaine, Director, Office of Housing
Eric Keeler, Deputy Director, Office of Housing

December 2, 2019

Ms. Helen McIlvaine
Director, Office of Housing
421 King Street, Suite 200
Alexandria, Virginia 22314

Dear Ms. McIlvaine:

This letter is to make a formal request for $8.0 MM from the City's Housing Opportunity Fund to assist AHDC in the acquisition of the Avana Alexandria, a 326-unit property located in Alexandria's West End. AHDC will use the City's funds to leverage two additional sources. The first source is the Virginia Housing Development Authority (VHDA) who will provide a first trust mortgage and grants and the second is a mezzanine loan from JBG Smith's Social Impact Fund.

As part of this acquisition AHDC plans to preserve 40 percent of those units (130) at 60 percent of the Area Median Income (AMI) and another 35 percent (114) at 80 percent of the AMI. We believe this will create an income affordability mix for the property that will allow us the flexibility to serve both current and future residents. JBG Smith will manage this property for AHDC and will assist us in completing the transition to the desired affordability mix within the first year of operations.

AHDC has committed to a quick due diligence and closing timeframe for this opportunity. As such we plan to close on this transaction by late January 2020. The funding plan established for this acquisition brings together the City of Alexandria, Commonwealth of Virginia, the private sector and the non-profit sector to create a significant affordable housing resource in the City. We are excited to be a part of this plan and we are prepared to answer any questions you may have.

Sincerely yours,

Jonathan D. Frederick
President

cc: Eric Keeler, Deputy Director, City of Alexandria Office of Housing

ATTACHMENT 2

2019 Income Levels

% AMI	1 Person	2 People	3 People	4 People
60%	$ 51,000	$ 58,260	$ 65,520	$ 72,780
80%	$ 68,000	$ 77,680	$ 87,360	$ 97,040

2019 Monthly Rent Limits					
% AMI	**Efficiency**	**1BR**	**2BR**	**3BR**	**4BR**
60%	$ 1,275	$ 1,366	$ 1,638	$ 1,893	$ 2,112
80%	$ 1,700	$ 1,821	$ 2,184	$ 2,524	$ 2,816